

STATE ALLOCATION BOARD

1130 K Street, Suite 400
Sacramento, CA 95814

**IMPLEMENTATION COMMITTEE MINUTES**

July 8, 2005

Legislative Office Building
1020 N Street, Room 100
Sacramento, CA

Members Present

Mavonne Garrity, SAB
Lori Morgan, OPSC
Dennis Bellet, DSA
John Palmer, CASBO
Brian Wiese, AIA
Constantine Baranoff, SSD
William Cornelison, CCSESA

Dennis Dunston, CEFPI
Debra Pearson, SSDA
Beth Hamby, LUSD
Blake Johnson, DOF
Liese Olukoya, CDE (Alternate for Fred Yeager)
Gary Gibbs, CBIA
Eric Hall, CASH

Members Absent

Jay Hansen, SBCTC

The meeting was called to order with 14 members present and 1 absent. The Chair acknowledged Liese Olukoya as the alternate representative for Fred Yeager, CDE.

The minutes from the June 3, 2005 Committee meeting were accepted with an amendment to the attendance. It was clarified that Dave Doomey attended as the CASH representative in the morning, and Eric Hall attended as the CASH representative in the afternoon.

SMALL HIGH SCHOOL PROGRAM (AB 1465)

The Chair announced that the implementation of AB 1465 (Chan) was returning for committee discussion due to a change in the proposed distribution of funds for the new construction portion of the Small High School Program. Subsequent to the June meeting, staff received a legal opinion regarding the use of the \$20 million. According to the legal opinion, the money was to be used specifically for the increase to the per-pupil grant only. Staff revised the previously submitted regulations to incorporate this change, withdrawing the previous proposal that the site acquisition be excluded from the total project cost. The audience requested clarification that the \$20 million would not also fund any additional grants tied to pupil grants, such as urban/security adjustments, and the chair acknowledged that this was correct. The committee and audience accepted the revisions.

The Chair noted that if any changes occurred before the regulations were presented to the State Allocation Board, they would be posted on the OPSC website.

FINANCIAL HARDSHIP EQUITY ISSUES

The Chair opened the discussion by explaining Observation Four, where the discussion left off from the previous Committee meeting. This pertains to districts that choose to obtain temporary or so called bridge financing. When State funds are unavailable districts may decide to move forward with their projects by obtaining bridge financing with the intent to retire the debt once State funding is available. Some districts are choosing to accept state funding once it becomes available, but do not

retire the bridge financing debt. At times, this is done in order for the district to meet the 60 percent bonding capacity threshold to apply for future financial hardship funding. Staff proposed to recognize the reimbursed state funding as being applied to the debt and determine the corresponding revised percentage of indebtedness.

Audience members stated that districts sometimes incur penalties when the bridge financing is paid off early. As a result, some districts are choosing to pay back the debt at a later date. Audience members proposed that districts be allowed to wait a time period to retire the debt in order not to incur penalties. Staff proposed to recognize the reimbursed state funding as being applied to the debt and determine the corresponding revised percentage of indebtedness, this does not require the district to pay off the debt.

The discussion moved forward with the Chair explaining Observation Five. Observation Five addresses the issue of districts submitting their financial hardship request after encumbering funds that would otherwise be available for district contribution toward their financial hardship projects. Staff proposed not to recognize any capital related encumbrances made within one year prior to requesting financial hardship funding. Audience members commented that one year is too long of a time to not recognize encumbrances. Districts have ongoing needs that have to be taken care of including maintenance as well as other capital needs.

It was noted by the Chair that ultimately, the SAB is concerned that the truly needy districts are being hurt with the ongoing trend and currently, the regulations allow districts to encumber all of their funds prior to coming in for the initial financial hardship request.

The Chair then presented the recommendations to address Observation One, which pertains to districts that request financial hardship assistance, receive funding and subsequently issue COP's or other funding mechanisms. The districts then choose to stay out of the financial hardship program for a period of three years from the date of the last fully funded financial hardship grant. As a result, any additional revenue generated by the district within the three year period is captured as district contribution. Additional observations were made at the June 3, 2005 meeting where discussion arose concerning the inadequacy of the grants for financial hardship districts. As a result districts were securing COP's to complete the projects and then were subject to the potential over expenditure penalties with the closeout audit. In addition, comments suggested that the financial hardship paperwork requirements and the review process are cumbersome and should be extended beyond a six month timeframe.

Based on all comments received, three Potential Solutions were presented. A general consensus was reached for Potential Solution A which requires districts to be subject to all governing financial hardship rules until a 100 percent final expenditure report is received for the last funded financial hardship project. Potential Solution B provided that on a case-by-case basis financial hardship districts would be allowed to supplement the SFP grant through local funding mechanisms to enable the construction of a complete school with minimum essential facilities as specified by CDE provided it was in the original scope of the project. Comments from the audience questioned what is the definition of a minimum essential facility and the definition of local funding mechanisms. A further comment was made that the issue stems from the insufficient grant amounts. A general consensus was reached for Potential Solution C. This provided that the financial hardship approval period be extended from six months to one year.

The Chair continued the discussion by presenting Observation Two and the revised Potential Solution associated. Observation Two is in regards to school districts using eligibility to build new schools based on augmentations to enrollment projections. As a result, districts receive up to 100 percent state funding to build new schools while developer fees for that project are not collected by the district until a later date when the construction permits are issued. Therefore, the State is unable to capture these funds as district contribution. The revised Potential Solution for Observation Two is the same as the Potential Solution A for Observation One (see above). A general consensus was reached as the Potential Solution for Observation Two.

The Chair ended the discussion with reiterating Observation Three. This is in regards to districts that secure a COP or other debt instrument to meet the 60 percent threshold and then quickly encumber the funds prior to requesting financial hardship assistance. Potential Solution B was to leave the debt requirement at 60 percent but require any COP or debt instrument issued to meet the 60 percent threshold within one year prior to be available as district contribution towards the project. An audience member provided a possible solution involving a simplified two tier system to qualify districts for financial hardship status. The Committee determined that the two tier system was too complex to implement. Ultimately, a consensus for Observation Three was reached utilizing Potential Solution B.

State Relocatable Classroom Program (SRCP)

At the June 22, 2005 State Allocation Board (SAB) meeting, the Asset Management Plan (AMP) was presented by the OPSC. After some discussion, the Board requested that the AMP and rent increases be discussed at the Implementation Committee and be brought back to the July 27, 2005 SAB.

After a brief overview of the AMP, the Chair opened the topic for discussion, requesting district feed back on a possible phase-out of the SRCP.

Discussion from the audience seemed generally in favor of a phase-out when relocatable classrooms reach 15 years of age although several audience members suggested they would like to purchase classrooms at 10 years of age. The audience concurred with the staff recommendation that school districts be permitted to purchase a State Relocatable Classroom (SRC) without impacting their School Facility Program new construction baseline eligibility. In addition, there was concern that if the OPSC discontinued the SRCP, there would not be a "safety net" in the event of an emergency.

Representatives from manufacturers and leasing companies were present and one stated that if there were an emergency, the industry would have at least 1,000 relocatable classrooms ready to distribute. They also discussed other issues regarding the costs associated with building, moving and leasing relocatable classrooms. One audience member suggested the State contract with private industry for emergency purposes, with predetermined costs for leases.

Discussion was then initiated regarding raising lease payments for SRC's and the lease revenues have been redirected to the General Fund for the past several years. An audience member added that there was no language in Proposition 1A that added funds for relocatable classrooms because of the revenue generated by the SRCP was intended to fund SRCP operations.

Comments from the audience regarding an increase in lease payments were unfavorable. There was some concern that if there was an increase it would particularly impact financial hardship districts. One member of the audience asked that if there was an increase in lease payments, that it not begin until the 2006/07 fiscal year due to the fact that districts have already confirmed their 2005/06 budgets. Districts also commented on the considerable cost to prepare sites for the SRC's, indicating the \$9,450 State set-up costs reimbursement did not cover the cost to prepare the site for accessibility, capital expenses, power, etc.

Audience members requested that if the State phased out of leasing relocatable classrooms and districts leased from private industry, that the State look at the chargeability issues associated with private leases, i.e., charging against SFP new construction eligibility after a five year lease term.

CASH volunteered to conduct a survey that would provide information regarding maintenance and repair of relocatable classrooms and the interest by districts in purchasing state owned classrooms. The information gathered by this survey will be forwarded to OPSC's by July 22, 2005 for inclusion in the item for the July 27, 2005 SAB.

ADJOURNMENT AND ANNOUNCEMENT OF THE NEXT MEETING

The Chair announced that the next meeting would take place on Friday, August 5, 2005 at 9:30 a.m. and would be held at 1500 Capital Ave. Rms. 72.149B & 72.148C in Sacramento, California. The meeting was adjourned at 3:30 p.m.